This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000034

SIPDIS

DEPT PASS TO EX-IM KVRANICH AND BUBAMADU
USDOC FOR 3317/ITA/OA/KBURRESS
PASS OPIC FOR ZHAN AND MSTUCKART
PASS TDA FOR NCABOT
PASS USTR FOR ASST USTR SLISER

E.O. 12958: DECL: 01/11/2015
TAGS: EFIN ECON EINV PGOV PREL TO NI
SUBJECT: BANK RECAPITALIZATION AND 2007 ELECTION

REF: 05 LAGOS 1405

Classified By: Consul General Brian L. Browne for reasons 1.4(b) and (d).

¶1. (C) Summary. 25 newly formed bank groups have met or surpassed the Central Bank of Nigeria's (CBN) naira 25 billion capital base. According to CBN's press release, some 13 banks did not meet the requirement before December 31, ¶2005. Bank insiders indicate at least 15 banks may be liquidated. Meanwhile, surviving banks face challenges of making the new capitalization "yield" for shareholders and investors as inflation remains in double-digits. Some experts believe the new banks will usher in a new era of improved banking services that will buttress the nation's financial stability. Other experts see the "reforms" as cosmetic widgets that do not fix the fundamental problems plaguing the bank environment, including weak legislation, poor management, and lack of CBN autonomy to control monetary policy. As part of mopping up of the liquidation resulting from the capitalization exercise, the CBN is sending a list of major debtors to the Economic and Financial Crimes Commission (EFCC). Many on the list are major shareholders in the failed banks and not surprisingly, some insiders expect the majority of names on this list are some of President Obasanjo's more vociferous political opponents. End Summary.

----
25 Bank Groups Emerge--But Where is AIB?

¶2. (U) According to the CBN, 25 newly formed bank groups, made up of 76 pre-existing banks, have emerged from the naira 25 billion (USD 192 million) recapitalization exercise. The 25 "megabanks" include: United Bank for Africa, First Bank, Union Bank, Oceanic Bank, Intercontinental Bank, Access Bank, Afribank, IBTC-Chartered Bank, Diamond Bank, Skye Bank, Wema Bank, First City Monument Bank, Platinum Bank, Fidelity Bank, Sterling Bank, First Inland Band, Spring Bank, Unity Bank and Equitorial Trust Bank all met the requirement through mergers and acquisitions. Nigeria International Bank/Citibank, Standard Chartered Bank, Zenith Bank, Ecobank, Stanbic Bank and Guaranty Trust Bank all met the recapitalization requirements individually.

¶3. (C) The CBN announced that some 13 banks may be liquidated based on their inability to meet the naira 25 billion target. These 13 banks accounted for 6.5% of total depositor funds or naira 125 billion (USD 962 million). A bank executive showed us a confidential January 2 CBN letter to the megabanks encouraging the megabanks to purchase the unfortunate 15. If there were no expression of interest in a particular bank, the CBN would move forward with the liquidation. These 15 banks include: Liberty Bank, Fortune Bank, City Express Bank, Triumph Bank, Metropolitan Bank, Gulf Bank, Afex Bank, Eagle Bank, Allstates Trust Bank, Assurance Bank, Hallmark Bank, Trade Bank, Societe General Bank, Lead Bank, and African Continental Bank.

¶4. (C) Conspicuously missing from both the CBN's list of 15 failed banks and the bank groups listed under the newly emerged 25 megabanks was African International Bank (AIB). Many bank insiders predicted AIB would be on the CBN's internal list of 15 failed banks. Some believe AIB was acquired by Diamond Bank Group, but Diamond does not officially list it under their group, nor do any of the other megabanks list AIB. AIB listed Komla Victor Alipui, former Togolese Minister of Economy and Finance (1984-1991), as President of AIB's Board of Directors.

-- -----
Depositors' Money and Asset Management Corporation
-- -----

¶5. (C) Nigeria Deposit Insurance Corporation (NDIC) Receivership and Liquidation Department Deputy Director Alhaji Isiaq said the NDIC would payback private sector insured depositors within 3 months once the CBN revoked a banks operating license. He said the Deposit Insurance Fund

(DIF) contained naira 84 billion (USD 646 million) from which NDIC could pay private sector depositors up to naira 50,000 (USD 385), the maximum amount NDIC insures under the current NDIC Act. If the NDIC needed more than the amount available in the DIF, NDIC could obtain funds from CBN, Isiaq said. Financial experts believe the process of paying back the majority of private sector depositors and security creditors could take more than 6 months.

¶6. (C) NDIC Director of Special Insured Institutions and former Deputy Director Liquidation Department, J.I. Ahimie, said NDIC is waiting for the CBN to make a "clear" announcement of how CBN wants NDIC to begin disbursement of funds. The ideal payment strategy would be through purchase and assumption (P&A) whereby the CBN/NDIC would ask a depositor to establish a new account at a specified bank and funds would be electronically transferred from the depositor's current bank to a new bank account. This would ensure that funds remain in the banking system and would save depositors and the NDIC time and money, Ahimie said. However, given current institutional and IT constraints, and lack of a clear CBN directive it is likely depositors would be paid through the old deposit pay-off system, whereby a depositor would be told to go to a particular bank in his area to collect his insured amount and wait several months (perhaps years) before collecting the uninsured sum.

¶7. (C) The NDIC and CBN jointly announced the proposed creation of the Assets Management Corporation (AMC) for handling delinquent loans for both liquidated and non-liquidated banks. AMC is expected to receive a naira 10 billion (USD 77 million) loan from CBN to handle the delinquent loans. The proposed company is expected to have the power to seize and confiscate assets belonging to borrowers, but this would require National Assembly approval. Many bank experts and NDIC officials do not believe the AMC will work for two reasons: 1)there is no secondary market for bank loans in Nigeria and 2) the institutional arrangements, particularly legal framework necessary for AMC to operate effectively have not been established.

Invest Where?

¶8. (C) Surviving banks face the challenge of meeting the profit expectations of shareholders and investors. Since the CBN announced its Bank Reform Act in June 2004, returns on investment, particularly in the Nigerian Stock Exchange, had plummeted, bank experts said. IBTC Executive Director Sola David-Borha said banks are struggling to decide where to invest the increased capital given double-digit inflation and lack of attractive investment vehicles. Borha said Government issued 3-year Treasury Bonds are yielding 17% returns, which according to her, is much more attractive for banks and less risky than lending money to small and medium-sized enterprises (SMEs), the portion of the economy the CBN claims the reforms are meant to rejuvenate.

¶9. (C) Professor Ayodele Teriba, CEO of Economic Associates, an economic research think-tank, said the creation of "megabanks" does not equal a larger depositor base. If inflation is 20%, and banks are giving 3% interest on deposits, people rather would invest their money elsewhere, at least to keep pace with inflation, Teriba argued. CEO of Financial Derivatives Company, Bismarck Rewane, added that depositor confidence in the banking system would not improve significantly in the next several months. Both Teriba and Rewane commented that depositors do not have viable investment options at home, and it would not be surprising if many depositors send money abroad as an alternative investment strategy.

This Marriage Was Never Really For US

¶10. (C) Bank experts complained the capitalization exercise was forced from "above" and many banks, despite achieving the 25 billion naira threshold, are struggling to integrate effectively with their merger partners. Boardroom infighting, squabbles over unemployment severance packages, the meshing of information technology systems, reconciliation of different corporate cultures, and determination of staffing patterns, continue to plague many newly emerged bank groups, they said. Borha stressed the CBN underestimated the extent to which differences in corporate culture would challenge the post-consolidation banking environment.

¶11. (C) The tax incentives and accompanying legislation needed to strengthen the banking industry have not materialized, bank experts said. Deputy Managing Director of MBC International Bank, Kofo Majekodunmi, said bank reforms have not addressed the fundamental weaknesses in the banking system including: weak bank legislation, poor management, lack of CBN autonomy, and ineffective monetary policy. Inadequate distribution networks and problems with enforcing contracts remained serious impediments to an improved banking

environment, he added.

¶12. (C) Majekodunmi said the CBN is not focusing on its primary role, that of directing monetary policy and controlling inflation. Other bank insiders added the CBN's lack of autonomy from the executive branch of government meant it had no true independent authority. Teriba said if the CBN were serious about inflation, it would not have lowered the Minimum Rediscount Rate (MRR) from 15% to 13% when inflation was hovering at 20% or higher. Bank executives see contradictions in CBN reform policy not only in terms of controlling inflation, but also in its stated reform goals of rejuvenating the agriculture, manufacturing, and SME sectors. They are skeptical that better access to credit for new investors in these sectors will occur anytime soon.

Economic Watchdog for Ruling Elite

¶13. (C) Some experts said the CBN is acting more like an investigative agency than an institution meant to direct monetary policy. Borha seemed puzzled the CBN would conduct a "post-integration verification of assets" of banks when it had already done a similar exercise late last year. She opined the CBN would only do this because it had not done a proper inspection earlier, or because it was worried about "illegal" money returning into the bank system. Others believe this is a mechanism in which the government can target political opponents, trace their assets, and send the results to the Economic and Financial Crimes Commission (EFCC) to seize an opponent's bank assets and prosecute him for financial crimes.

¶14. (C) NDIC Field Examinations Deputy Director O.M. Sulaimon said the CBN has already sent a list of significant debtors to the EFCC for action. He said many of the individuals were major shareholders of the failed banks and suggested arrests and seizures of assets of prominent individuals were likely to occur in the run-up to the 2007 election. He did not mention names, but he echoed the opinions of several bank insiders who believe the list targeted President Obasanjo's opponents.

Comment

¶15. (C) Bank recapitalization requirements will probably not significantly improve the bank environment for most people. Access to affordable credit will remain problematic for the small-scale investor. Fundamental legal and institutional barriers will prevent the recapitalization from opening the banking system to those who previously had little access. More likely, the capitalization and resultant creation of large banks will create a larger pool of funds and better services for the larger depositors and companies, and perhaps represent a safe bet for large-scale investors. Finally, as with most things in Nigeria, the latest banking exercise has political overtones. Some critics believe the reforms are not neutral, but that the CBN is also using the exercise to place Administration opponents under a financial microscope in the hopes of finding financial improprieties that will sideline these opponents during the upcoming electoral season.

¶16. (C) As newly emerged megabanks face integration woes, some are looking ahead at postal sector reform as a possible investment avenue to increase their distribution networks and gain a market advantage over other banks. End Comment.
HOWE